Carbon capture tax credit draws fire; Environmental groups say Liberals' plan could lead to higher emissions from oil industry

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Body

The biggest chunk of new spending for climate action in the Liberal government's latest budget is for an industrial tax credit that the opposition New Democrats, the Bloc Québécois and the Greens - as well as many environmental groups - consider a questionable subsidy for fossil-fuel companies.

The 2022 budget tabled Thursday earmarks $2.6 billion over the next five years - and then $1.5 billion annually until 2030 - for companies that invest in eligible carbon capture, utilization and storage (CCUS) projects. That's more funding than any other climate program is getting through this budget.

The new tax credit, first promised in last year's budget, will be available this year for CCUS projects that "permanently store" greenhouse gas emissions in eligible ways, like storing them underground or in concrete, the budget says.

The credit will cover 60 per cent of a company's spending on CCUS equipment that sucks emissions from the air, 50 per cent for equipment that captures them in other ways, and 37.5 per cent for equipment used to transport and store captured emissions.

To "encourage the industry to move quickly to lower emissions," the payouts from the tax credit will be cut in half after 2031, the budget says.

The new funding to spur the adoption of CCUS is further evidence the government is relying in part on the emerging technology to meet its goal of slashing national emissions to at least 40 per cent below 2005 levels by 2030. Its "Emissions Reduction Plan" released on March 29 assumes that 13 per cent of those reductions will come from CCUS technology.

But climate campaigners argue CCUS has so far resulted in negligible emissions reductions, and that using government money to help heavy polluters adopt this technology could actually help the oil and gas sector increase production and ultimately lead to higher global emissions.

"A huge amount of our public dollars are going to make the problem worse," said Julia Levin, senior climate and energy program manager with Environmental Defence.

"They're simply not treating (climate change) like an emergency."

The climate activist group 350.org also said in a statement that the tax credit "does little more than ensure Big Oil will continue to expand fossil fuel production," and noted it comes a day after the government approved a major new deepwater oil project off the Newfoundland coast.

Not all environmental groups oppose the measure, however. Clean Prosperity, a think tank that promotes policies like carbon pricing, welcomed the tax credit as a "critical driver" of investment in CCUS, predicting this technology will be "essential" to meeting Canada's emissions targets.

Left-leaning opposition parties are also opposed to the idea. Speaking Thursday, NDP Leader Jagmeet Singh - whose party signed a pact to prop up the Liberal minority government for three years in exchange for progressive policy action - described the tax credit as a $2.6-billion fossil-fuel subsidy.

"We shouldn't be giving public dollars to profitable companies," Singh said.

"There's lots of better ways to spend that money to really move us forward in terms of fighting the climate crisis."

But climate campaigners like Environmental Defence argue CCUS has so far resulted in negligible emissions reductions, and that using government money to help heavy polluters adopt this technology could actually help the oil and gas sector increase production and ultimately lead to higher global emissions.

This winter, a group of more than 400 academics urged Finance Minister Chrystia Freeland not to include the tax credit in this year's federal budget.

Left-leaning opposition parties are also opposed to the idea. In an interview with the Star before the budget, Singh questioned whether the technology can work like the government predicts.

"We feel very strongly that it's not a reliable approach to dealing with the climate crisis," he said.

The NDP has also pushed the government to eliminate more fossil fuel subsidies, as the Liberals pledge to scrap all "inefficient" subsidies that promote production and exploration of oil and gas by the end of 2023.

On that score, the budget pledges to phase out a tax benefit for investors who put money into fossil fuel companies after March 2023.

The oil and gas industry accounted for 26 per cent of Canada's greenhouse gas emissions in 2019, more than any other sector of the economy, according to the most recent data. But the government now predicts that greenhouse gas output can drop by 42 per cent by 2030, spurred by federal policies like the federal carbon price, CCUS and a cap on oil and gas emissions.

The government also announced through the budget that it will create a new "arm's-length" investment fund by repurposing $15 billion in existing government spending over the next five years. The goal is to attract at least $45 billion in private investment to projects that reduce emissions and diversify Canada's economy.

The budget makes the case that this money is sorely needed to ensure Canada achieves its ultimate goal of "net-zero" emissions - when remaining pollution is eliminated by CCUS or natural carbon sinks. According to the projections in the budget, Canada needs to spend up to $140 billion per year in public and private money on this transition, instead of the current $15 billion to $25 billion.

The budget spells out an additional $12 billion in spending on climate action stretched over the next eight years.

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